**LIM345 Local Municipality**
Financial statements
for the 11 Months ended June 30, 2017

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Providing municipal services and maintaining the best interest of the local community. |
| **Grading of local authority** | 03 |
| **Chief Finance Officer (CFO)** | CM Maeta (Acting CFO) |
| **Accounting Officer** | T.C Ngobeni |
| **Registered office** | LIM345 Municipal Offices<br>125 Hospital Street<br>Malamulele<br>0982 |
| **Business address** | LIM345 Municipal Offices<br>125 Hospital Street<br>Malamulele<br>0982 |
| **Postal address** | Private Bag X9271<br>Malamulele<br>0982 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor General South Africa (AGSA) |

# LIM345 Local Municipality
Financial Statements for the 11 Months ended June 30, 2017

## General Information

**Members of Municipal Council**

| | |
|---|---|
| **Mayor** | Cllr Bila TJ |
| **Speaker** | Cllr Lebea ME |
| **Chief whip** | Cllr Chauke MG |
| Members of the Executive Committee | |
| | Cllr Maluleke SG |
| | Cllr Mashimbye FP |
| | Cllr Mutele TM |
| | Cllr Mavikane SX |
| | Cllr Mukhaha AJ |
| | Cllr Chauke HG |
| | Cllr Fungheni MC |
| | Cllr Baloyi DL |
| | Cllr Mazibuko MP |
| Other members of Municipal Council | Cllr Shivambu S |
| | Cllr Mabasa D |
| | Cllr Khoza TG |
| | Cllr Matamela MS |
| | Cllr Masangu GD |
| | Cllr Maluleke M |
| | Cllr Chauke TR |
| | Cllr Maluleke ET |
| | Cllr Simango MR |
| | Cllr Hlongwane SG |
| | Cllr Makhubele HT |
| | Cllr Ndove HD |
| | Cllr Mudau TS |
| | Cllr Mabasa KK |
| | Cllr Ngobeni MR |
| | Cllr Mabasa J |
| | Cllr Baloyi HR |
| | Cllr Rivombo KE |
| | Cllr Sunduza ZW |
| | Cllr Chabangu TC |
| | Cllr Khosa HJ |
| | Cllr Mabunda MC |
| | Cllr Chauke NS |
| | Cllr Munyai N |
| | Cllr Mukhomi VN |
| | Cllr Maluleke MP |
| | Cllr Ngobeni NE |
| | Cllr Mahlale S |
| | Cllr Moyo MT |
| | Cllr Mathonsi NP |
| | Cllr Sambo TM |
| | Cllr Sithole MW |
| | Cllr Shandukani MJ |
| | Cllr Chavani PJ |
| | Cllr Mashakeni |
| | Cllr Mulaudzi TN |
| | Cllr Mudau RP |
| | Cllr Madavhu FF |
| | Cllr Ndzovela NG |
| | Cllr Rekhotso SM |
| | Cllr Nkuna DT |
| | Cllr Miyambo ZQ |
| | Cllr Baloyi MJ |
| | Cllr Baloyi NJ |
| | Cllr Mahlangu D |
| | Cllr Mabasa RC |
| | Cllr Baloyi OC |

# General Information

Cllr Vukeya HM
Cllr Machovani RG
Cllr Tshiredo CE
Cllr Hlabangwani TL
Cllr Radzivhoni CM
Cllr Masia TM
Cllr Mathoma MP
Cllr Rikhotso GM
Cllr Thovhakale MS
Cllr Ngobeni NL

# Index

The reports and statements set out below comprise the financial statements presented to the municipal council::

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that the ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the inter-governmental grants and transfersas well as service charges for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

The financial statements set out on pages 6 to 53, which have been prepared on the going concern basis, were approved and signed on behalf of Council on 11 September 2017 by:

**Accounting Officer**
**T.C Ngobeni**

## Accounting Officer's Report

The accounting officer submits the report for the 11 months ended 30 June 2017.

### 1. Incorporation

The municipality was incorporated on August 10, 2016 and commenced business on the same day

The Municipality was established in terms of section 12 of the Municipal Structures Act, No. 117 of 1998 and is a category B municipality. It consists of 71 elected councilors and 36 wards.

It was established on the 10 August 2017 and its first council sitting was on the 17 August 2017, during the year the municipality embarked on a public participation and other processes for naming of the Municipality and processes were concluded at year end.

In terms of the demarcation, Vuwani falls within Lim 345 Municipality; however, there is dissatisfaction by Vuwani community to fall within Lim345 Local Municipality; this led to unrest and inability by the municipality to provide services within Vuwani area. However, the matter is receiving political intervention at Provincial and National level.

### 2. Going concern

We draw attention to the fact that at June 30, 2017, the municipality had accumulated profit of R 548,578,912 and that the municipality's total assets exceed its liabilities by R 548,578,912.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continue to secure funding for the ongoing operations for the municipality and that sound financial management will remain in force for as so long as it takes to maitain the solvency of the municipality.

### 3. Subsequent events

**Adjusting Event**
The accounting officer is not aware of any matter or circumstance arising since the end of the11 months period.

**Non Adjusting Event**
On the 03 August 2017, the council adopted Collins Chabane Municipality as the new name of the municipality and the process is waiting for the MEC of Coghsta to gazette the name.

### 4. Accounting policies

The financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

# LIM345 Local Municipality

Financial Statements for the 11 Months ended June 30, 2017

## Statement of Financial Position as at June 30, 2017

| Figures in Rand | Note(s) | 30 June 2017 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Inventories | 6 | 4,150,427 |
| Receivables from exchange transactions | 7 | 3,957,613 |
| Receivables from non-exchange transactions | 8 | 3,577,901 |
| VAT receivable | 9 | 8,915,584 |
| Consumer debtors | 10 | 7,274,055 |
| Cash and cash equivalents | 11 | 186,333,026 |
| | | **214,208,606** |
| **Non-Current Assets** | | |
| Investment property | 2 | 13,284,000 |
| Property, plant and equipment | 3 | 377,709,804 |
| Intangible assets | 4 | 949,194 |
| | | **391,942,998** |
| **Total Assets** | | **606,151,604** |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Finance lease obligation | 12 | 815,213 |
| Payables from exchange transactions | 14 | 10,842,280 |
| Employee benefit obligation | 5 | 1,112,368 |
| Unspent conditional grants and receipts | 13 | 38,939,290 |
| | | **51,709,151** |
| **Non-Current Liabilities** | | |
| Employee benefit obligation | 5 | 5,863,547 |
| **Total Liabilities** | | **57,572,698** |
| **Net Assets** | | **548,578,906** |
| Accumulated surplus | | 548,578,912 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 11 Months ended 30 June 2017 |
|---|---|---|
| **Revenue** | | |
| **Revenue from exchange transactions** | | |
| Service charges | | 12,593,489 |
| Rendering of services | | 1,113 |
| Licences and permits | | 5,168,581 |
| Rental income | | 21,794 |
| Interest earned on debtors | | 5,562,723 |
| Interest received - investment | 17 | 5,461,172 |
| **Total revenue from exchange transactions** | | **28,808,872** |
| **Revenue from non-exchange transactions** | | |
| **Taxation revenue** | | |
| Property rates | 18 | 7,513,424 |
| **Transfer revenue** | | |
| Government grants & subsidies | 19 | 290,103,407 |
| **Total revenue from non-exchange transactions** | | **297,616,831** |
| **Total revenue** | 15 | **326,425,703** |
| **Expenditure** | | |
| Employee related costs | 20 | (36,328,525) |
| Remuneration of councillors | 21 | (22,200,258) |
| Depreciation and amortisation | 22 | (12,541,061) |
| Debt Impairment | 23 | (22,403,712) |
| Repairs and maintenance | | (1,757,736) |
| Contracted services | 24 | (4,336,084) |
| General Expenses | 25 | (21,221,318) |
| **Total expenditure** | | **(120,788,694)** |
| Gain from transfer of functions between entities not under common control | 28 | 342,941,903 |
| **Surplus for the 11 months** | | **548,578,912** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at July 1, 2016** | - | - |
| Changes in net assets | | |
| Surplus for the 11 months | 548,578,912 | 548,578,912 |
| Total changes | 548,578,912 | 548,578,912 |
| **Balance at June 30, 2017** | **548,578,912** | **548,578,912** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 11 Months ended 30 June 2017 |
| --- | --- | --- |
| **Cash flows from operating activities** | | |
| **Receipts** | | |
| Sale of goods and services | | 3,200,448 |
| Grants | | 325,464,796 |
| Interest income | | 5,461,172 |
| | | 334,126,416 |
| **Payments** | | |
| Employee costs | | (52,305,104) |
| Suppliers | | (24,614,198) |
| | | (76,919,302) |
| **Net cash flows from operating activities** | 27 | **257,207,114** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | 3 | (70,589,441) |
| Purchase of other intangible assets | 4 | (1,099,860) |
| **Net cash flows from investing activities** | | **(71,689,301)** |
| **Cash flows from financing activities** | | |
| Finance lease payments | | 815,213 |
| **Net increase/(decrease) in cash and cash equivalents** | | **186,333,026** |
| **Cash and cash equivalents at the end of the year** | 11 | **186,333,026** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 2,850,000 | - | **2,850,000** | 12,593,489 | **9,743,489** | Note 41 |
| Rendering of services | - | - | - | 1,113 | **1,113** | |
| Rental of facilities and equipment | 2,250,000 | - | **2,250,000** | 21,794 | **(2,228,206)** | |
| Interest received (trading) | 900,000 | - | **900,000** | - | **(900,000)** | |
| Licences and permits | - | - | - | 5,168,581 | **5,168,581** | |
| Interest earned on debtors | - | - | - | 5,562,723 | **5,562,723** | |
| Interest received - investment | 300,000 | 1,700,000 | **2,000,000** | 5,461,172 | **3,461,172** | |
| **Total revenue from exchange transactions** | **6,300,000** | **1,700,000** | **8,000,000** | **28,808,872** | **20,808,872** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 18,000,000 | - | **18,000,000** | 7,513,424 | **(10,486,576)** | |
| Property rates - penalties imposed | 1,500,000 | - | **1,500,000** | - | **(1,500,000)** | |
| Licences or Permits (Non-exchange) | 3,500,000 | - | **3,500,000** | - | **(3,500,000)** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | - | - | - | 290,103,407 | **290,103,407** | |
| Fines, Penalties and Forfeits | 4,000,000 | (4,000,000) | - | - | - | |
| Other transfer revenue 1 | 226,232,000 | (3,000,000) | **223,232,000** | - | **(223,232,000)** | |
| **Total revenue from non-exchange transactions** | **253,232,000** | **(7,000,000)** | **246,232,000** | **297,616,831** | **51,384,831** | |
| **Total revenue** | **259,532,000** | **(5,300,000)** | **254,232,000** | **326,425,703** | **72,193,703** | |
| **Expenditure** | | | | | | |
| Personnel | (109,091,000) | 19,500,000 | **(89,591,000)** | (36,328,525) | **53,262,475** | |
| Remuneration of councillors | (31,049,000) | 2,000,000 | **(29,049,000)** | (22,200,258) | **6,848,742** | |
| Depreciation and amortisation | (23,000,000) | (12,000,000) | **(35,000,000)** | (12,541,061) | **22,458,939** | |
| Finance costs | (396,000) | - | **(396,000)** | - | **396,000** | |
| Debt Impairment | (12,437,000) | (5,000,000) | **(17,437,000)** | (22,403,712) | **(4,966,712)** | |
| Repairs and maintenance | - | - | - | (1,757,736) | **(1,757,736)** | |
| Contracted Services | (23,000,000) | 5,000,000 | **(18,000,000)** | (4,336,084) | **13,663,916** | |
| Transfers and Subsidies | (8,000,000) | 4,000,000 | **(4,000,000)** | - | **4,000,000** | |
| General Expenses | (53,626,000) | 1,600,000 | **(52,026,000)** | (21,221,318) | **30,804,682** | |
| **Total expenditure** | **(260,599,000)** | **15,100,000** | **(245,499,000)** | **(120,788,694)** | **124,710,306** | |
| **Surplus before taxation** | **(1,067,000)** | **9,800,000** | **8,733,000** | **205,637,009** | **196,904,009** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **(1,067,000)** | **9,800,000** | **8,733,000** | **205,637,009** | **196,904,009** | |

**Reconciliation**

## LIM345 Local Municipality

Financial Statements for the 11 Months ended June 30, 2017

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | - | 3,250,000 | **3,250,000** | 4,150,427 | **900,427** | |
| Receivables from exchange transactions | - | - | - | 3,957,613 | **3,957,613** | |
| Receivables from non-exchange transactions | - | - | - | 3,577,901 | **3,577,901** | |
| VAT receivable | - | - | - | 8,915,584 | **8,915,584** | |
| Consumer debtors | - | 112,563,000 | **112,563,000** | 7,274,055 | **(105,288,945)** | |
| Cash and cash equivalents | - | 50,617,000 | **50,617,000** | 186,333,026 | **135,716,026** | |
| | - | **166,430,000** | **166,430,000** | **214,208,606** | **47,778,606** | |
| **Non-Current Assets** | | | | | | |
| Investment property | - | - | - | 13,284,000 | **13,284,000** | |
| Property, plant and equipment | - | 344,958,000 | **344,958,000** | 377,709,804 | **32,751,804** | |
| Intangible assets | - | 70,000 | **70,000** | 949,194 | **879,194** | |
| | - | **345,028,000** | **345,028,000** | **391,942,998** | **46,914,998** | |
| **Total Assets** | - | **511,458,000** | **511,458,000** | **606,151,604** | **94,693,604** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | - | 815,213 | **815,213** | |
| Payables from exchange transactions | - | 20,000,000 | **20,000,000** | 10,842,280 | **(9,157,720)** | |
| Employee benefit obligation | - | - | - | 1,112,368 | **1,112,368** | |
| Unspent conditional grants and receipts | - | - | - | 38,939,290 | **38,939,290** | |
| Provisions | - | 1,500,000 | **1,500,000** | - | **(1,500,000)** | |
| | - | **21,500,000** | **21,500,000** | **51,709,151** | **30,209,151** | |
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | - | - | - | 5,863,547 | **5,863,547** | |
| **Total Liabilities** | - | **21,500,000** | **21,500,000** | **57,572,698** | **36,072,698** | |
| **Net Assets** | - | **489,958,000** | **489,958,000** | **548,578,906** | **58,620,906** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | - | 489,958,000 | **489,958,000** | 548,578,906 | **58,620,906** | |

# LIM345 Local Municipality

Financial Statements for the 11 Months ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Sale of goods and services | 8,940,000 | - | **8,940,000** | - | **(8,940,000)** | |
| Grants | 319,369,000 | 9,600,000 | **328,969,000** | - | **(328,969,000)** | |
| Interest income | 750,000 | 1,270,000 | **2,020,000** | - | **(2,020,000)** | |
| Other receipts | 55,163,000 | (45,800,000) | **9,363,000** | - | **(9,363,000)** | |
| | **384,222,000** | **(34,930,000)** | **349,292,000** | **-** | **(349,292,000)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | - | (119,970,000) | **(119,970,000)** | - | **119,970,000** | |
| Net increase/(decrease) in cash and cash equivalents | 384,222,000 | (154,900,000) | **229,322,000** | - | **(229,322,000)** | |
| **Cash and cash equivalents at the end of the year** | **384,222,000** | **(154,900,000)** | **229,322,000** | **-** | **(229,322,000)** | |

All significant variances +-10 have been explained under note 41

## Accounting Policies

### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

#### 11 Presentation currency.

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern.

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Investment property.

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes. Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

## Accounting Policies

### 1.1 Presentation currency (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Fair value**

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Transfer of functions between entities not under common control

**Definitions**

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

### 1.3 Transfer of functions between entities not under common control (continued)

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Non-controlling interest is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

Owners (for the purposes of this Standard), is used broadly to include holders of residual interests.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

**The acquisition method**

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising the difference between (c) and the consideration transferred to the seller.

**Identifying the acquirer**

For each transfer of functions between entities not under common control, one of the combining entities is identified as the acquirer.

The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement.

Determining the acquirer includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

**Determining the acquisition date**

The acquirer identifies the acquisition date, which is the date on which it obtains control of the acquiree.

All relevant facts and circumstances are considered in identifying the transfer date.

**Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred (if any)**

### 1.3 Transfer of functions between entities not under common control (continued)

The municipality as acquirer recognises the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. This difference is measured as the excess of (a) over (b) below:
(a) the aggregate of:
(i) the consideration transferred (if any) measured in accordance with this Standard, which generally requires acquisition-date fair value;
(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and
(iii) in a transfer of functions achieved in stages, the acquisition-date fair value of the entity as acquirer's previously held equity interest in the acquiree.
(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

#### Subsequent measurement and accounting

In general, an municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### 1.4 Investment property (continued)

**Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment of land and building is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses in line with the valuation roll of the municipality.

Depreciation is calculated on the asset's depreciable amount, using the straight line method over useful lives of the asset. The components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated seperately. The annual depreciation rates are based on the following estimated average asset lives as per the MFMA - Local Government Capital Assets Management Guideline.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Infinity |
| Buildings | Straight line | 30 years |
| Plant and machinery | Straight line | 10-15 years |
| Furniture and fixtures | Straight line | 3-5 years |
| Motor vehicles | Straight line | 5-7 years |
| Office equipment | Straight line | 3 - 5 years |
| IT equipment | Straight line | 5 years |
| Computer software | Straight line | 5 years |
| Electrical Infrastructure | Straight line | 20 years |
| Community | Straight line | 20 years |
| Other property, plant and equipment | Straight line | 20 years |
| Road infrastructure | Straight line | 20 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

### 1.5 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Impairment.

The municipality tests for impairment where there is an indication that the asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable (recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount). and an impairment loss is charged to the Statement of Financial Performance. ( Impairment loss of a valued asset is treated as a revaluation decrease).

De-recognition.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

### 1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.6 Intangible assets (continued)

**Subsequent measurement.**

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Licenses and franchises | Straight line | 5 years |
| Computer software, other | Straight line | 5 years |
| Other intangible assets | Straight line | 5 years |

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

**De-recognition**

Intangible assets are de-recognised when the asset is disposed of or when no future economic benefits or service potential are expected from its use. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sale proceeds and the carrying value and is recognised in the Statement of Financial Performance.he gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

### 1.7 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

### 1.7 Financial instruments (continued)

**Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value, plus, (in the case of financial instruments not at fair value through profit or loss), transaction costs. The fair value of a financial instrument that is initially recognised is normally the transaction price, unless the fair value is evident from the observable market data. The municipality uses a discounted cash flow model which incorporates entity-specific variables to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value initially recognised in (which in accordance with GRAP 104, is generally the transaction price) and the amount initially determined using the valuation technique. Any such differences are subsequently recognised in profit or loss only to the extent that they relate to a change in the factors (including time) that market participants would consider in setting the price.

**Subsequent measurement**

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation. The municipality classifies its financial assets into the following categories:

- loans and receivables; a
- fair value through profit and loss.

The classification depends on the purpose for which the financial asset is acquired, and is as follows: Loans and receivables are financial assets that are created by providing money, goods or services directly to a debtor. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

Fair value through profit and loss financial assets include derivative financial instruments used by the Entity to manage its exposure to fluctuations in interest rates attached to certain of its external borrowings interest swap agreements. Any fair value adjustment is recorded in the Statement of Financial Performance in the period in which it arises. To the extent that a derivative instrument has a maturity period of longer than a year, the fair value of these instruments will be reflected as a noncurrent asset or liability, and is subsequently measured at fair value at Statement of Financial Position date.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial asset, or, where appropriate a shorter period.

Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

Cash includes cash on hand and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.7 Financial instruments (continued)

Impairment

An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exists that a financial asset is impaired. The carrying amounts of cash investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments. This reduction in carrying value is recognised in the Statement of Financial Performance.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the financial asset.


An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exists that a financial asset is impaired. The carrying amounts of cash investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments. This reduction in carrying value is recognised in the Statement of Financial Performance.


Impairment of non-financial assets


An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exists that a financial asset is impaired. The carrying amounts of cash investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments. This reduction in carrying value is recognised in the Statement of Financial Performance.


Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

### 1.8 Leases (continued)

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de recognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. The aggregate benefit of incentives of operating lease are recognised as a reduction of rental expense on a straight-line basis over the term of the relevant lease.

Municipality as the lessee

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis.

The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

### 1.9 Inventories (continued)

The cost of inventories is assigned using the  formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.11 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

### 1.11 Employee benefits (continued)

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

## Accounting Policies

### 1.11 Employee benefits (continued)

**Termination benefits**

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

### 1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

### 1.13 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. Revenue shall be measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, VAT and other similar allowances. Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

#### Service charges

When the outcome of a transaction involving the rendering services can be estimated reliably, revenue associated with the transaction is recognised by the stage of completion of the transaction at the reporting date. The outcome of the transaction can be estimated reliably when the following are met:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- and the amount of the revenue can be measured reliably.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

#### Sale of goods

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Interest

Interest shall be recognised on a time proportionate basis that takes into account the effective interest yield on the asset.

#### Agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement. The revenue is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Collection charges are recognised when incurred.

### 1.14 Revenue from exchange transactions (continued)

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 1.14 Revenue from exchange transactions (continued)

**Interest**

Interest is recognised, on a time proportionate basis that takes into account the effective interest rate method.

### 1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### 1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

The municipality does not have comparateive figures since it was establishedin the current period under review.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the 11months that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the 11months that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irrregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 8/10/2016 to 6/30/2017.

### 1.22 Budget information (continued)

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Municipality will provide explantion of +-10% variance on comparison of budget and actual amount

### 1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be

influenced by, that management in their dealings with the municipality. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

| Figures in Rand | 30 June 2017 |
|---|---|

### 2. Investment property

| | 2017 | | |
|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 13,284,000 | - | 13,284,000 |

**Reconciliation of investment property - 2017**

| | Opening balance | Transfers received | Total |
|---|---|---|---|
| Investment property | - | 13,284,000 | 13,284,000 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality has performed assessment of impairment as at 30 June 2017

### 3. Property, plant and equipment

| | 2017 | | |
|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 8,949,440 | - | 8,949,440 |
| Buildings | 21,433,910 | (795,208) | 20,638,702 |
| Plant and machinery | 19,105,420 | (2,345,941) | 16,759,479 |
| Furniture and fixtures | 1,133,366 | (133,117) | 1,000,249 |
| Motor vehicles | 4,802,972 | (456,651) | 4,346,321 |
| Office equipment | 752,528 | (74,465) | 678,063 |
| IT equipment | 3,490,153 | (381,175) | 3,108,978 |
| Community | 43,124,840 | (1,777,110) | 41,347,730 |
| Other Equipment | 343,440 | (38,225) | 305,215 |
| Road infrastructure | 279,382,141 | (5,602,240) | 273,779,901 |
| Leased Assets | 2,107,920 | (468,427) | 1,639,493 |
| Electricity assets | 5,474,071 | (317,838) | 5,156,233 |
| **Total** | **390,100,201** | **(12,390,397)** | **377,709,804** |

| Figures in Rand | 30 June 2017 |
|---|---|

### 4. Intangible assets

| | 2017 | | |
|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1,099,860 | (150,666) | 949,194 |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Transfers received | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | - | 1,099,860 | (150,666) | 949,194 |

**Other information**

The municipality has reviewed the useful lives, residual values and performed assessment of impairment as at 30 June 2017

# LIM345 Local Municipality

Financial Statements for the 11 Months ended June 30, 2017

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 5. Employee benefit obligations

**Defined benefit plan**

**The total amounts recognised in the statement of financial position are as follows:**

| | |
|---|---|
| Defined benefit obligation - long service awards | 3,642,797 |
| Defined benefit obligation - unused leave benefits | 3,333,118 |
| | **6,975,915** |

**5.1 Long-Service award**

Long service award relate to the legal obligation to provide long service leave awards. Acturial benefits have been calculated for 155 elegible employee as at 30 June 2017 that are entitled to long service awards. The long service awards liability is not a funded arrangement. i.e no serperate assets have been set aside to meet this liability. The municipality offers rewards specified year intervals of completed service.

| Key assumptions | 30 June 2017 |
|---|---|
| Discount rate (%) | 8 |
| General salary inflation (%) | 6 |
| Net discount rate (%) | 2 |
| Average retirement age (Years) | 63 |
| Pre retirement mortality (Years) | 85 |
| | - |

**Post retirement benefit plan**

**UNUSED LEAVE DAYS**

This is the present value of the total unused leave benefit expected to become payable under the employer's current service arrangements and based on the assumption made.

This may be regarded as the amount of money that should be set aside in present day terms to cover all expected unused leave benefit for current employees.

Long term portion R2 220 750
Current Portion R1 112 368

| Assumption used at the reporting date | 30 June 2017 |
|---|---|
| Discount rates used | 9.27% |
| General salary inflation | 7.11% |
| Net discount rate | 2.02% |
| Average retirement age | 63 |
| Pre-retirement mortality | SA85-90 |

### 6. Inventories

| | |
|---|---|
| Consumable stores | 730,232 |
| Land inventory | 3,420,195 |
| | **4,150,427** |

Inventory is measured using First In, First Out (FIFO) method. Inventory has not be pledged as a security for liabilities.

| Figures in Rand | 30 June 2017 |
|---|---|

### 7. Receivables from exchange transactions

| | |
|---|---|
| Makhado Loan Account | 377,035 |
| Thulamela Loan Account | 3,065,456 |
| Sundry debtors | 515,122 |
| | **3,957,613** |

### 8. Receivables from non-exchange transactions

| | |
|---|---|
| Property rates | 18,304,445 |
| Property rates impairment | (14,726,544) |
| | **3,577,901** |

| **Ageing for rates.** | **Total** |
|---|---|
| Current (0-30 days) | 604,396 |
| 31-60 days | 531,863 |
| 61- 90 days | 529,664 |
| 91-120 days | 560,729 |
| 121-365 days | 3,515,188 |
| > 365 days | 12,562,605 |
| | 18,304,445 |
| Less: Allowance for impairment | (14,726,544) |
| | **3,577,901** |

Fair Value of consumer debtors approximates the carrying amount thereof

### 9. VAT receivable

| | |
|---|---|
| VAT | 8,915,584 |

### 10. Consumer debtors

| | |
|---|---|
| **Gross balances** | |
| Refuse | 10,408,423 |
| Other | 84,867,996 |
| | **95,276,419** |
| **Less: Allowance for impairment** | |
| Refuse | (9,490,405) |
| Other | (78,511,959) |
| | **(88,002,364)** |
| **Net balance** | |
| Refuse | 918,018 |
| Other | 6,356,037 |
| | **7,274,055** |
| **Included in above is receivables from exchange transactions** | |
| Refuse | 918,018 |
| Other | 6,356,037 |
| | **7,274,055** |

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 10. Consumer debtors (continued)

| | |
| --- | --- |
| **Net balance** | **7,274,055** |

| **Refuse** | |
| --- | --- |
| Current (0 -30 days) | 215,659 |
| 31 - 60 days | 214,132 |
| 61 - 90 days | 213,425 |
| 91-120 days | 121,506 |
| 121 - 365 days | 1,454,757 |
| > 365 days | 8,100,994 |
| | **10,405,373** |

| **Other (specify)** | |
| --- | --- |
| Current (0 -30 days) | 1,526,471 |
| 31 - 60 days | 1,522,786 |
| 61 - 90 days | 1,501,576 |
| 91 - 120 days | 1,494,243 |
| 121 - 365 days | 10,073,725 |
| > 365 days | 68,749,195 |
| | **84,867,996** |

# LIM345 Local Municipality
Financial Statements for the 11 Months ended June 30, 2017

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 10. Consumer debtors (continued)

**Summary of debtors by customer classification**

| | |
|---|---|
| **Consumers** | |
| Current (0 -30 days) | 1,485,680 |
| 31 - 60 days | 1,748,898 |
| 61 - 90 days | 1,628,864 |
| 91 - 120 days | 1,628,378 |
| 121 - 365 days | 78,916,748 |
| | **85,408,568** |
| **Industrial/ commercial** | |
| Current (0 -30 days) | 294,658 |
| 31 - 60 days | 289,876 |
| 61 - 90 days | 222,975 |
| 91 - 120 days | 222,151 |
| 121 - 365 days | 7,736,567 |
| | **8,766,227** |
| **National and provincial government** | |
| Current (0 -30 days) | 105,005 |
| 31 - 60 days | 32,295 |
| 61 - 90 days | 26,366 |
| 91 - 120 days | 26,341 |
| 121 - 365 days | 956,617 |
| | **1,146,624** |
| **Total** | |
| Current (0 -30 days) | 1,885,343 |
| 31 - 60 days | 2,071,069 |
| 61 - 90 days | 1,878,205 |
| 91 - 120 days | 1,876,870 |
| 121 - 365 days | 87,564,932 |
| | 95,276,419 |
| Less: Allowance for impairment | (88,002,364) |
| | **7,274,055** |
| **Less: Allowance for impairment** | |
| > 120 days | (88,002,364) |
| **Reconciliation of allowance for impairment** | |
| Debt impairment written off against allowance | (88,002,364) |

The municipality has assessed the impairment of debtors at year end and has provided for debtors greater than 120 days excluding government and those with credit balance.

Fair Value of consumer debtors approximates the carrying amount thereof.

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

| Figures in Rand | 30 June 2017 |
|---|---|

### 11. Cash and cash equivalents (continued)

| | |
|---|---|
| Bank balances | 124,086,577 |
| Short-term deposits | 62,246,449 |
| | **186,333,026** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
| First National Bank - Main Account - 626302407020 | 124,086,575 | - | - | 124,086,575 | - | - |
| First National Bank - Call Account - 62644021933 | 20,748,811 | - | - | 20,748,811 | - | - |
| First National Bank - Call Account - 62644025620 | 41,497,637 | - | - | 41,497,637 | - | - |
| **Total** | **186,333,023** | **-** | **-** | **186,333,023** | **-** | **-** |

### 12. Finance lease obligation

| | |
|---|---|
| **Minimum lease payments due** | |
| - within one year | 644,019 |
| - in second to fifth year inclusive | 214,673 |
| | 858,692 |
| less: future finance charges | (43,478) |
| **Present value of minimum lease payments** | **815,214** |

| | |
|---|---|
| Non-current liabilities | 214,673 |
| Current liabilities | 644,019 |
| | **858,692** |

Municipality has leased photocopier machines for a non-renewable period of 36 month. The lease agreement provides for monthly payments of R53 668.21 with no escalation. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

### 13. Unspent conditional grants and receipts

The grants are made up as follows:

**Unspent conditional grants and receipts comprises of:**

| | |
|---|---|
| **Unspent conditional grants and receipts** | |
| FMG | 679,407 |
| MIG | 28,597,914 |
| MDTG | 9,661,969 |
| | **38,939,290** |

This highlights the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

## 13. Unspent conditional grants and receipts (continued)

These amounts are invested in a ring-fenced investment until utilised.

## 14. Payables from exchange transactions

| | |
| --- | --- |
| Trade payables | 1,414,422 |
| Payments received in advanced - contract in process | 341,570 |
| Sundry creditors | 1,757,129 |
| Accrued bonus - 13th cheque | 1,164,026 |
| Retention | 6,165,133 |
| | **10,842,280** |

## 15. Revenue from non-exchange

| | |
| --- | --- |
| Rendering of services | 1,113 |
| Service charges | 12,593,489 |
| Licences and permits | 5,168,581 |
| Rental income | 21,794 |
| Interests on outstanding debtors | 5,562,723 |
| Interest received - investment | 5,461,172 |
| Property rates | 7,513,424 |
| Government grants & subsidies | 290,103,407 |
| | **326,425,703** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | |
| --- | --- |
| Service charges | 12,593,489 |
| Rendering of services | 1,113 |
| Licences and permits | 5,168,581 |
| Rental income | 21,794 |
| Other income | 5,562,723 |
| Interest received - investment | 5,461,172 |
| | **28,808,872** |

**The amount included in revenue arising from exchange transactions is as follows:**

| | |
| --- | --- |
| **Taxation revenue** | |
| Property rates | 7,513,424 |
| **Transfer revenue** | |
| Government grants & subsidies | 290,103,407 |
| | **297,616,831** |

## 16. Other revenue

| | |
| --- | --- |
| Rental income - third party | 21,794 |
| Interest on outstanding debtors | 5,562,723 |
| | **5,584,517** |

## 17. Investment revenue

| | |
| --- | --- |
| **Interest revenue** | |
| Interest on investment | 5,461,172 |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 18. Property rates

**Rates received**

| | |
| --- | --- |
| Residential | 7,513,424 |

The valuation Rolls which were in use were extrated for Thulamela Local Municipality and Makhado Municipality for properties within the municipality juristiction. The municipality compiled and adopted a general valuation roll, which will be effective from 1 July 2017. The new valuation roll was compiled by Mod Hope

| Figures in Rand | 30 June 2017 |
|---|---|

### 19. Government grants and subsidies

| | |
|---|---|
| **Operating grants** | |
| Equitable share | 206,039,000 |
| Financial Management Grant | 1,330,593 |
| | **207,369,593** |
| **Capital grants** | |
| Municipal Infrastructure Grant | 72,252,783 |
| Municipal Dermacation Transition Grant | 10,481,031 |
| | **82,733,814** |
| | **290,103,407** |

**Equitable Share**

In terms of the constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy which is funded from the grant. The municipality adopted the indigent policy of Thulamela and Makhado Local Municipality for the 11 months period as billing services were rendered by the local municipalities.

**Finance Management Grant (FMG)**

| | |
|---|---|
| Current-year receipts | 2,010,000 |
| Conditions met - transferred to revenue | (1,330,593) |
| | **679,407** |

Conditions still to be met - remain liabilities (see note 13).

This grant was used to promote and support reforms to municipal financial management and implementation of MFMA,2003.The conditions of the grant were met. No funds have been withheld.

**Municipal Infrastructure Grant (MIG)**

| | |
|---|---|
| Roll-over (Transferred) | 12,673,697 |
| Current-year receipts | 88,177,000 |
| Conditions met - transferred to revenue | (72,252,783) |
| | **28,597,914** |

Conditions still to be met - remain liabilities (see note 12).

This grant was used to construct Municipal Infrastructure to provide basic services for the benefit of communities. The Municipality received roll-over from Thulamela Local Municipality relating to projects that were transfered to Lim345. The following is the breakdown of the roll-over per project.

Conditions still to be met are made up of the following:

Current allocation
Roll-Over

**Municipal Dermacation Transition Grant (MDTG)**

| | |
|---|---|
| Current-year receipts | 20,143,000 |
| Conditions met - transferred to revenue | (10,481,031) |

| Figures in Rand | 30 June 2017 |
|---|---|

### 19. Government grants and subsidies (continued)

| | |
|---|---|
| | **9,661,969** |

Conditions still to be met - remain liabilities (see note 13).

The grant was used to subsidise the additional institutional and administrative costs arising from major boundary changes due to come into effect at the time of the 2016 local government elections

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 20. Employee related costs

| | |
|---|---|
| Basic | 22,839,767 |
| Cellphone Allowance | 2,692,725 |
| Bonus | 1,717,433 |
| UIF | 209,584 |
| SDL | 226,322 |
| Other payroll levies | 304,463 |
| Other short term costs | 69,885 |
| Defined contribution plans | 1,382,225 |
| Travel, motor car, accommodation, subsistence and other allowances | 246,486 |
| Overtime payments | 756,021 |
| Long-service awards | 66,495 |
| Car allowance | 674,377 |
| Housing benefits and allowances | 48,004 |
| Pension Fund contribution | 4,299,782 |
| Termination benefits | 794,956 |
| | **36,328,525** |

**Remuneration of municipal manager**

| | |
|---|---|
| Annual Remuneration | 98,340 |
| Acting Allowance | 111,115 |
| Contributions to UIF, Medical and Pension Funds | 297 |
| | (209,752) |
| | - |

The post of the municipal manager was vacant since the inception of the municipality until the end of April 2017. Two officials acted as municipal manager during the year and the municipal manager was appointed in May 2017.

**Remuneration of chief finance officer**

| | |
|---|---|
| Acting Allowance | 81,059 |
| | (81,059) |
| | - |

The post of the Chief Financial Officer was vacant during the year and two officials acted as chief financial officer through out the period.

**Remuneration of Senior Manager - Corporate**

| | |
|---|---|
| Annual Remuneration | 35,432 |
| Acting Allowance | 66,763 |
| Travel and other allowances | 16,363 |
| Contributions to UIF, Medical and Pension Funds | 149 |
| | (118,707) |
| | - |

**Remuneration of SeniorManager - Spatial Planning and Development**

| | |
|---|---|
| Acting Allowance | 83,705 |
| | (83,705) |
| | - |

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 20. Employee related costs (continued)

The post was vacant during the year and an official acted as director spatial planning and development.

**Director: Technical services**

The post was vacant during the year and there was no acting

**Director: Community Services**
The post was vacant during the year and there was no acting

### 21. Remuneration of councillors

| | |
| --- | --- |
| Executive Mayor | 683,861 |
| Chief Whip | 371,468 |
| Speaker | 1,534,781 |
| Other councillors | 19,610,148 |
| | **22,200,258** |

### 22. Depreciation and amortisation

| | |
| --- | --- |
| Property, plant and equipment | 12,390,395 |
| Other assets | 150,666 |
| | **12,541,061** |

### 23. Debt impairment

| | |
| --- | --- |
| Debt impairment | 22,403,712 |

### 24. Contracted services

| | |
| --- | --- |
| Information Technology Services | 2,277,388 |
| Security services | 2,058,696 |
| | **4,336,084** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 25. General expenses

| | |
|---|---|
| Advertising | 283,996 |
| Auditors remuneration | 21,411 |
| Bank charges | 149,565 |
| Consulting and professional fees | 4,156,649 |
| Consumables | 1,146,665 |
| Fines and penalties | 440,618 |
| Insurance | 63,436 |
| Community development and training | 346,849 |
| Postage and courier | 2,956,899 |
| Printing and stationery | 824,148 |
| Subscriptions and membership fees | 783,273 |
| Telephone and fax | 1,150,985 |
| Venue, conference and catering | 971,006 |
| Accomodation | 2,153,287 |
| Travel - local | 752,285 |
| Valuation roll | 1,109,712 |
| Electricity | 707,062 |
| Uniforms | 5,000 |
| Licences and permits (non-vehicle) | 2,783 |
| IDP forum and other trainings | 602,495 |
| Information and technology | 294,611 |
| Indegent expenses | 2,298,583 |
| | **21,221,318** |

Consulting and professional fees is made up of general financial management , preparation of financial statements, verification of assets, migration of data, revenue verification and professional services including reconciliations.

Accomodation incurred in the period under review by the councillors, the officials (management) as well as the Acting personnel who acted for senior management posts for the period from inception up to the end of the period.

### 26. Auditors' remuneration

| | |
|---|---|
| Fees | 21,411 |

### 27. Cash generated from operations

| | |
|---|---|
| Surplus | 548,578,912 |
| **Adjustments for:** | |
| Depreciation and amortisation | 12,541,061 |
| Debt impairment | 22,403,712 |
| Movements in retirement benefit assets and liabilities | 6,975,915 |
| Gain/ loss on transfer | (342,956,898) |
| **Changes in working capital:** | |
| Inventories | (730,232) |
| Receivables from exchange transactions | (3,957,613) |
| Consumer debtors | (19,842,888) |
| Other receivables from non-exchange transactions | (3,577,901) |
| Payables from exchange transactions | 7,749,340 |
| VAT | (8,915,584) |
| Unspent conditional grants and receipts | 38,939,290 |
| | **257,207,114** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 28. Transfer of functions between entities not under common control

**Key assumptions**

On 10 August 2016 LIM345 Local Municipality was established in terms of Municipal Systems Act as a result of the establishment, there was a transfer of functions from Makhado municipality and Thulamela Local Municipality.

There transfer fo function was done in terms of GRAP 106 which relates to Transfer of Function between entities not under common control.

Gain and Losses on the transfer of assets and liabilities were recongnised at fair value on the statement of financial performance.

The receivables from Makhado municipality and Thulamela Municipality were taken on at their Gross values and impaired to their Fair value as per GRAP 106.

**Aggregate transfer of functions R342,941,903**

### 29. Commitments

**Authorised capital expenditure**

| Already contracted for but not provided for | |
|---|---|
| • Property, plant and equipment | 96,946,604 |
| • Operational | 16,398,506 |
| | **113,345,110** |

| Total capital commitments | |
|---|---|
| Already contracted for but not provided for | 113,345,110 |

### 30. Contingencies

**Contigent Liabilties**:
The municipality did not have any contigent liabilities as at year end.

**Contigent assets:**

Included in the Councillor allowances is an amount of R1 498 604 for cell phone and data expensespaid to Vodacom for in excess of the monthly limit as per the upper limits of Councillors.

| Figures in Rand | 30 June 2017 |
|---|---|

### 31. Related parties

Relationships
Members of key Management

TC Ngobeni (Municipal Manager)
RR Shilenge (Senior Manger Corporate Services
CM Maeta (Acting CFO)
D Mhangwana (Acting Municipal Manager/CFO)
D Moshoana (Acting Municipal Manager)
B Louw (Acting Senior Manger Planning and Dev)

**Remuneration of management**

**Councillors/Mayoral committee members**

**2017**

**Name**
Mayor
Chief whip
Speaker
Other councillors

Refer to the general informcation for a full list of councillors

### 32. Comparative figures

No comperative available in the current period under review since the municipality commenced its operations in the current financial year .

### 33. Risk management

**Financial risk management**

**Interest rate risk**

The municipality has no significant interest-bearing assets and as a result thereof the municipality's income and operating cashflows are substantially independent of changes in market interest rate.

**Liquidity risk**

The Municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Financial assets exposed to credit risk at year end were as follows:

| Maximum credit exposure | |
|---|---|
| Receivables from exchange transactions | 3,957,613 |
| Receivables from non-exchange transactions | 3,577,901 |
| Cash and cash equivalents | 186,333,025 |
| | - |
| | **193,868,539** |

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 34. Going concern

We draw attention to the fact that at June 30, 2017, the municipality had accumulated surplus of R 548,578,912 and that the municipality's total assets exceed its liabilities by R 548,578,912.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 35. Events after the reporting date

No matters arose and come to the attention of management and the Council since June 2017.

### 36. Unauthorised expenditure

No unathorised expenditure relating to a Vote was identified during the year under review.

### 37. Fruitless and wasteful expenditure

| | |
| --- | --- |
| Interest paid to service providers | 441,244 |

The fruitless expenditure incurred will be investigated and controls are put in place to mitigate the incurrence of expenditure in future.

### 38. Irregular expenditure

| | |
| --- | --- |
| Add: Irregular Expenditure - current year | 6,456,270 |

The matters above have been submitted to council for investigation.

### 39. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | |
| --- | --- |
| SALGA | 783,273 |

**VAT**

| | |
| --- | --- |
| VAT receivable | 8,915,584 |

### 40. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the financial statements. Total deviation for current year was R3 305 610.27.

### 41. Budget differences

**Material differences between budget and actual amounts**

### 41. Budget differences (continued)

The municipality explains all excess of actual expenditure over the final budget of 10% over approved budget.

**1. Service charges**
The budget was based on estimated collection rather than the billing

**2. Rental on facilities**
Under utilisation of facilities due to problem in some areas within the municipality demarcation

**3.Interest earned on debtors**
The variance was caused due to low payment rate especially related to development levy in rural areas

4.Increase in surplus fund due to delay on implemetation of grant funded capital projects and personal costs

**5. Personal cost**
Delay in finalisation of transfer of employees and appointment on budgeted positions

**6.Councillors remunerations**
The budget anticipated an increase in salaries on councillors remunerations but Full Time Councillors, Exco Members did not received an increase.

**7.General expenses**
Low level of operational activities due to late physical transfer of assets and personnel

**8. Contracted Services**
Low level of operational activities due to late physical transfer of assets and personnel

**9. Debt impairment**
Low level of collections due to developmental levy and problems within the municipality areas